

Exhibit 11

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8 IN THE UNITED STATES DISTRICT COURT
9 FOR THE NORTHERN DISTRICT OF CALIFORNIA
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11 UNITED STATES,

No. C 00-00284 CRB

12 Plaintiff,

ORDER RE: MOTION TO DISMISS

13 v.

14 PAVEL LAZARENKO,

15 Defendant.
16 _____/

17 Petitioner Universal Trading & Investment Co. ("UTICo") initiated these ancillary
18 proceedings to assert its claims to the forfeited funds of Pavel Lazarenko, claiming (1) its
19 interest in the funds vested prior to any criminal activity, thus its interest is superior to that of
20 the Government; and (2) it was a *bona fide* purchaser for value without knowledge that the
21 funds were subject to forfeiture. Before the Court is the Government's Motion to Dismiss
22 this action for want of standing and Motion for Summary Judgment. Petitioner UTICo has
23 filed cross-motions for an order for a joint statement of undisputed facts and to compel
24 discovery.

25 After reading and considering the arguments presented by the parties, the Court
26 GRANTS the Government's Motion to Dismiss all claims under 21 U.S.C. § 853(n)(6)(A)
27 because the Court finds that UTICo had no prior vested interests to the forfeited assets.
28 Additionally, the Court GRANTS the Government's Summary Judgment Motion as to all

1 remaining claims because UTICo cannot adduce evidence that it was a *bona fide* purchaser
2 for value of the forfeited assets who, at the time of the purchase, was without knowledge that
3 the assets were subject to forfeiture. Petitioner's cross-motions are DENIED as moot.

4 **I. BACKGROUND**

5 Pavel Lazarenko, the former Prime Minister of Ukraine, was convicted of conspiracy
6 to launder money and seven substantive money laundering violations in June 2004. As part
7 of his sentence, the court forfeited Lazarenko's interest in the funds and bonds that were the
8 subject and proceeds of his money laundering activities.

9 In April 2004 and September 2006, the Court entered preliminary orders of forfeiture
10 divesting Lazarenko of his interest in one account at FleetBoston Bank Robertson Stephens,
11 Inc. and two accounts in Banc of America Investment Services, Inc. These orders became
12 final at Lazarenko's sentencing in September 2006. As a result, the United States acquired
13 title to the forfeited funds and bonds pursuant to the relation-back doctrine of 21 U.S.C. §
14 853(c) and (n)(7). In May 2006, Petitioner first claimed the funds and bonds in the three
15 forfeited accounts under 21 U.S.C. §§ 853(n)(6)(A) and (B). In May 2008, Petitioner filed a
16 supplemental and amended petition, asserting the same four claims as in its 2006 petition.

17 **II. DISCUSSION**

18 Once a court has forfeited a defendant's interest in assets that are involved in, or
19 traceable to, a crime of money laundering, the courts must use an ancillary proceeding to
20 determine if any third party ownership interests exist in the forfeited assets. 21 U.S.C. § 853;
21 Fed. R. Crim. P. 32.2(b)-(c). In denying a claim to the same assets at issue in the instant
22 case, this Court articulated the legal principle that governs these ancillary proceedings. *See*
23 *United States v. Lazarenko*, 575 F. Supp. 2d 1139 (N.D. Cal. 2008). The test that is applied
24 to discern the weight of a third party interest depends on whether that party's interest arose
25 before or after the criminal activities that gave rise to the forfeiture. *See id.* at 1146. If the
26 interest arose prior to the criminal activity, then § 853(n)(6)(A) applies and the third party
27 must prove a prior vested interest superior to that of the defendant at the time of the criminal
28 activities. *Id.* If, however, the interest arose subsequent to the criminal acts, then under §
853(n)(6)(B) the third party must prove that it is a *bona fide* purchaser for value of the

1 forfeited assets who was reasonably without knowledge that the assets were subject to
2 forfeiture. *Id.* The scope of the ancillary proceeding is limited to determining if the third
3 party petitioner has a valid interest under either § 853(n)(6)(A) or § 853(n)(6)(B); an
4 ancillary proceeding is not the proper venue to relitigate the underlying forfeiture. *See id.* at
5 1146-52.

6 UTICo brings four claims under § 853(n)(6)(A), claiming that its legal interest to the
7 forfeited assets vested prior to Lazarenko's criminal activities. In entering the forfeiture
8 order, the Court used the relation back doctrine to divest Lazarenko of his assets as of 1992,
9 when the criminal conspiracy began. UTICo spills much ink attacking the validity of the
10 date of forfeiture, claiming the assets could not have been seized until 1994 or 1997.
11 However, this is not the proper proceeding to contest the underlying forfeiture action, the
12 forfeiture has been finalized and this Court is bound by it. *See Lazarenko*, 575 F. Supp. 2d at
13 1148. The scope of this proceeding is limited to the narrow issue of whether UTICo has a
14 claim under either § 853(n)(6)(A) or (B). *Id.* at 1146-48.

15 UTICo also asserts a claim under § 853(n)(6)(B), claiming that through its dealings
16 with the Government of Ukraine it is a *bona fide* purchaser for value without knowledge that
17 the assets were subject to forfeiture.

18 **1. UTICo's § 853(n)(6)(A) Claims**

19 To bring a petition, a third party has the burden to prove that it has statutory standing
20 as well as Article III standing under the Constitution. To establish statutory standing in an
21 ancillary proceeding, the petitioner must assert a "legal interest in property which has been
22 ordered forfeited to the United States." 21 U.S.C. § 853(n)(2); *United States v. Timley*, 507
23 F.3d 1125, 1129-30 (8th Cir. 2007). To determine if a petitioner has standing under Article
24 III primarily depends upon whether the petitioner has a sufficient interest in the property.
25 *See United States v. 5208 Los Franciscos Way*, 385 F.3d 1187, 1191 (9th Cir. 2004). As
26 noted above, under § 853(n)(6)(A), a third party petitioner may only assert a prior vested
27 interest which was acquired prior to the criminal activity giving rise to the forfeiture.
28 *Lazarenko*, F. Supp. 2d at 1150-51; *United States v. Chavez*, 323 F.3d 1216, 1218-19 (9th
Cir. 2003); *United States v. Hooper*, 229 F.3d 818, 821-22 (9th Cir. 2000).

1 *a. 2005 Default Judgment*

2 As to UTICo's assertion that it is entitled to the funds based on its status as a
3 judgment creditor, case law unambiguously demonstrates that judgment creditors are
4 considered unsecured creditors until they place a lien on the assets to satisfy the judgment.¹
5 *See, e.g., United States v. Carmichael*, 440 F. Supp. 2d 1280, 1282 (M.D. Ala. 2006)
6 (unsecured creditor who did not obtain a judgment lien until after property became subject to
7 forfeiture cannot recover under § 853(n)(6)(A) because no prior vested interest); *United States*
8 *v. Speed Joyeros, S.A.*, 410 F. Supp. 2d 121, 125-26 (E.D.N.Y. 2006); *United States v. Hays*,
9 No. 05-50045, 2006 WL 1228972 at *4-5 (W.D. La. May 4, 2006). UTICo has not placed
10 any liens, thus it does not have a prior vested interest in the assets. Accordingly, UTICo
11 lacks standing under its first theory of a prior vested interest pursuant to § 853(n)(6)(A).

12 The two equitable considerations UTICo raises are similarly without merit. UTICo
13 contends that its status as a judgment creditor should relate-back to the actual controversy the
14 suit was brought to remedy. First, UTICo argues that its claim against UESU arose from acts
15 occurring from July 1993 to June 1994. UTICo believes the 2005 default judgment vested its
16 interests in the assets as of 1993. UTICo argues that because the earliest criminal act with
17 which the United States has jurisdiction occurred in July 1994 (at the earliest), it should
18 prevail under § 853(n)(6)(A). The argument lacks merit. First, an ancillary proceeding is not
19 the proper venue for relitigating the underlying forfeiture, thus neither is it the proper place
20 to relitigate the application of the relation back doctrine. *See, e.g., Lazarenko*, 575 F. Supp.
21 2d at 1146-52. Moreover, UTICo has failed to provide support for, or even explain why, it is
22 entitled to this form of prejudgment interest.

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27 ¹ UTICo's default judgment was entered against United Energy Systems of Ukraine ("UESU"),
28 an entity, UTICo claims, that is a major instrumentality of the kickbacks through which Lazarenko and
his agents accumulated over ninety percent of their criminal fortune. UTICo also traces the proceeds
of Lazarenko's criminal assets to and through UESU by way of complicated money tracing tactics. No
court, however, has ruled that Lazarenko and UESU are one and the same, or that UESU is subject to
the forfeiture proceedings initiated against Lazarenko.

1 UTICo's second equitable argument claims that it is entitled to the assets even without
 2 a lien, because but for the Government's involvement in its litigation against UESU
 3 (resulting in a stay of five years and five months) UTICo would have been entitled to default
 4 judgment much earlier and would have recovered the assets well before the Government had
 5 the opportunity to conduct a forfeiture action. However, there is no way to know whether
 6 UTICo would have still been granted a default judgment without the nearly five and a half
 7 year stay. Indeed, the stay may have been a contributing factor in UESU's failure to
 8 prosecute its claims against UTICo and defend itself against UTICo's counterclaims.

9 The default judgment was not entered in favor of UTICo until 2005, whatever
 10 argument UTICo now makes does not negate the thirteen year time lapse between
 11 Lazarenko's crimes and UTICo's alleged interest.

12 *b. Claims Arising from UTICo's Relationships with Ukraine*

13 UTICo's second and third claims arise from its relationship with the government of
 14 Ukraine. Pet. at ¶ 37-38. UTICo's second claim asserts an interest in the forfeited assets
 15 based on an alleged 1998 or 1999 assignment of rights to it from the Prosecutor General of
 16 Ukraine. See *id.* at ¶¶ 6, 37. The Prosecutor General allegedly assigned Ukraine's interest to
 17 these funds (as it was the alleged victim of conversion) to UTICo so that UTICo could
 18 recover in its stead. *Id.* at ¶ 38. UTICo claims this assignment gave it a superior interest
 19 under § 853(n)(6)(A). UTICo's third claim asserts that it is a *bona fide* purchaser for value
 20 of RICO claims in the United States stemming from contracts dated between 1998-1999
 21 between it and the government of Ukraine. *Id.* at ¶ 69-97. The agreement provides that
 22 UTICo receive a twelve percent finder's fee of any assets recovered from the schemes
 23 perpetrated on Ukraine. *Id.* at ¶ 112.

24 With regards to UTICo's second claim derived from its alleged assignment of
 25 conversion claims from Ukraine's Prosecutor General, another court in this district has
 26 already invalidated that assignment, and though the decision is pending appeal, this Court is
 27 persuaded by the court's reasoning. See *Universal Trading & Investment Co. v. Kiritchenko*,
 28 C 99-3071 MMC (Order Granting Defendants' Motion for Summary Judgment), *appeal*
pending No. 07-16873 (9th Cir.). In dismissing the lawsuit, Judge Chesney independently

1 applied Ukrainian law (after applying applicable choice of law doctrine) and found that the
2 assignment was invalid because the Prosecutor General lacked the authority to assign
3 Ukraine's interests. *See id.* at 26-31. Judge Chesney's holding was reinforced by the rulings
4 of the Ukrainian courts, which held the assignment invalid under similar reasoning. *See id.* at
5 31-33.

6 UTICo now argues that the Ukrainian Supreme Court has altered its position and
7 upheld UTICo's "material rights" under agreements with Ukraine. Pet's Opp. at 22.
8 However, in explaining the rationale of the Ukrainian Supreme Court, UTICo never asserts
9 that it upheld or otherwise validated the assignment; rather, UTICo explains that the "Court
10 affirmed UTICo's remuneration for implementing two Agreements." Pet'rs. Opp. at 22. The
11 excerpt of the opinion provided by UTICo reads more as a factual finding of what the
12 assignment contained, as opposed to a validation of it. *Id.* at 21-22. For the reasons noted in
13 Judge Chesney's order, this Court holds that the assignment does not confer standing upon
14 UTICo. Moreover, even if the assignment does confer an interest, the assignment did not
15 occur until August of 1999, well after Lazarenko began his criminal activities in 1992.

16 Similarly, UTICo's third claim must fail because its agreement to purchase the RICO
17 claims from Ukraine involve actions that arose between 1998-1999, after Lazarenko began
18 his criminal enterprise.

19 Accordingly, UTICo's second and third theories fails to for lack of standing.

20 *c. UTICo's Constructive Trust*

21 Lastly, UTICo asserts that it is the beneficiary of a constructive trust, thus again its
22 interest in the assets trump those of the Government. UTICo filed a civil suit against
23 Lazarenko and others in 1999. At the time of UTICo's petition in 2006, that suit was still
24 pending. However, it was dismissed in 2007 by Judge Chesney. *See Universal Trading &*
25 *Investment Co. v. Kiritchenko*, CV 99-03073 MMC, *appeal pending*, No. 07-16873 (9th
26 Cir.). Even if this lawsuit had not been dismissed, or if it is reinstated by the Ninth Circuit,
27 the suit was not filed until 1999, well after Lazarenko began his criminal enterprise, thus
28 UTICo's fourth theory fails as well.

2. UTICo's § 853(n)(6)(B) Claim

1 To succeed under § 853(n)(6)(B) UTICo must prove: (1) that it has a legal interest in
2 the forfeited assets; (2) that it was a *bona fide* purchaser for value of the forfeited assets; and
3 (3) that it was reasonably without cause to believe that the forfeited funds and bonds were
4 subject to forfeiture. *Lazarenko*, 575 F. Supp. 2d at 1146.

5 In its petition, UTICo asserts that it is the beneficiary of a constructive trust arising
6 from the 1999 lawsuit against Lazarenko and that it is a *bona fide* purchaser of the right to
7 bring that lawsuit through an agreement with the Prosecutor General of Ukraine. As noted
8 above, the assignment from the Prosecutor General is invalid, thus UTICo cannot prove the
9 first element of a § 853(n)(6)(B) claim: there is no legal interest. Even if we assume the
10 validity of the assignment, UTICo still fails to establish the remaining two elements
11 necessary for proving a claim under § 853(n)(6)(B). UTICo cannot show that it purchased
12 the forfeited assets from the Ukrainian government (element two), and without a showing of
13 purchase, it is impossible to show knowledge at the time of said purchase (element three).
14 The Eleventh Circuit has spoken on the issue of which assets are protected under §
15 853(n)(6)(B) and held that the “only assets that are potentially immunized from forfeiture are
16 those for which *value has been given*.” *United States v. McCorkle*, 321 F.3d 1292, 1295
17 (11th Cir. 2003) (emphasis in original).

18 Here, the only “asset” that UTICo allegedly purchased was the right to bring claims in
19 Ukraine’s stead. UTICo has not provided any evidence that Ukraine, or its Prosecutor
20 General, owned any of the specific assets forfeited in this case, or that it purchased the
21 specific assets from Ukraine or its Prosecutor General for valuable consideration. Lastly
22 even if elements one and two were satisfied, the assignment and purchase of Ukraine’s
23 claims were in an effort to recover assets that were the subject of criminal acts. Therefore,
24 UTICo should have known that these assets could be subject to forfeiture in the United
25 States. *See United States v. Brown*, 509 F. Supp. 2d 1239, 1247 (M.D. Fla. 2007) (explaining
26 standard is whether the petitioner should have been aware of criminal activity and risk of
27 forfeiture).

28 **IV. CONCLUSION**

1 Given that UTICo does not have a legal interest in the forfeited assets that predates
2 Lazarenko's crimes, it lacks standing under § 853(n)(6)(A). Moreover, UTICo's claim under
3 § 853(n)(6)(B) must fail because: (1) the assignment is invalid and does not confer a legal
4 interest to UTICo; and (2) UTICo cannot produce evidence showing that it was a *bona fide*
5 purchaser and that it lacked notice of forfeiture. Accordingly, UTICo's motion for an order
6 for a joint statement of undisputed facts is denied as moot, as is its motion to compel
7 discovery. UTICo has argued that additional discovery is required prior to adjudicating this
8 summary judgment motion; however, because the Court's ruling is premised on legal
9 principles, as opposed to findings of fact, additional discovery is not required.

10 **IT IS SO ORDERED.**

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12 Dated: March 10, 2009

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15 CHARLES R. BREYER
16 UNITED STATES DISTRICT JUDGE
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United States District Court
For the Northern District of California